

2023 DIVISION OF REVENUE AMENDMENT BILL

Briefing for the Select Committee on Appropriations

PRESENTED BY:

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Division: IGR

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National Treasury
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Outline

- Overview of the 2023 Division of Revenue Amendment Bill
 - Changes to schedules
 - Changes to provincial allocations
 - Changes to local government allocations
 - Changes to gazetted conditional grant frameworks and allocations
- 2024 Division of Revenue in the MTBPS

Division of Revenue Amendments Bill – Proposed amendments

Division of Revenue Bill tabled on Budget Day contains all of this (plus, Explanatory Memorandum)

Division of Revenue Act

[Act 5 of 2023]

Government Gazette

No. 48865
30 June 2023

Division of Revenue Amendment Bill

[B 33-2023]

Act passed by Parliament and signed by the President in June 2023, contains:

- Clauses of the Act set requirements for transfer of funds, reporting on funds, conditions that may be set for grants and enforcement mechanisms
- Schedules to the Act contain equitable share and grant allocations

215-page gazette signed by the Minister of Finance contains:

- Grant frameworks setting out conditions and responsibilities attached to each conditional grant
- Allocations per individual municipality
- Supplementary detail for allocations (e.g., split per grant component)

Bill tabled on 01 November 2023 contains:

- In-year adjustments to allocations, consistent with limitations in S30 of the PFMA
- Request to correct a gazetted framework

Section 30(2) of the PFMA says that a national adjustments budget may only provide for:

- a) adjustments required due to significant and **unforeseeable economic and financial events** affecting the fiscal targets set by the annual budget;
- b) **unforeseeable and unavoidable expenditure** recommended by the national executive or any committee of Cabinet members to whom this task has been assigned;
- c) any expenditure in terms of section 16;
- d) money to be appropriated for **expenditure already announced** by the Minister during the tabling of the annual budget;
- e) the **shifting of funds between and within votes** or to follow the transfer of functions in terms of section 42;
- f) the utilisation of **savings** under a main division of a vote for the defrayment of excess expenditure under another main division of the same vote in terms of section 43; and
- g) the **roll-over of unspent funds** from the preceding financial year.

Changes in the schedules

- The main purpose of the DoRAB is to amend “Column A” of the DoRA schedules which shows the allocation for the current year
- The new “Column A” created by the DoRAB shows the original allocation, the adjustment and the new allocation to maximise transparency in the adjustment process
- “Column A” is amended for schedules 1, 2, 3, 4 (Parts A and B), 5(Parts A and B),6 (Parts A and B) and 7 (Part B)

Schedule 1 from 2023 DoRA

Spheres of Government	Column A	Column B	
	2023/24	Forward Estimates	
		2024/25	2025/26
	R'000	R'000	R'000
National ^{1,2}	1 370 506 087	1 446 672 800	1 542 867 018
Provincial	567 527 713	587 499 698	614 270 842
Local	96 546 258	103 772 035	109 368 064
TOTAL	2 034 580 058	2 137 944 533	2 266 505 924

Schedule 1 from 2023 DoRAB

Spheres of Government	Column A		
	2023/24 Main Allocation	Adjustment	2023/24 Adjusted Allocation
	R'000	R'000	R'000
National ^{1,2}	1 370 506 089	(2 555 077)	1 367 951 012
Provincial	567 527 713	17 558 206	585 085 919
Local	96 546 258	(1 357 517)	95 188 741
TOTAL	2 034 580 060	13 645 612	2 048 225 672

Changes to provincial allocations in 2023/24



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Additions

- Additions are made in PES for health and education to compensate for the 2023/24 wage implication
- Additions are based on the headcount per province in health and education

R million	Original PES allocation	Additions to PES	Revised PES allocation
Eastern Cape	73 292	2 313	75 605
Free State	31 380	1 049	32 429
Gauteng	120 752	3 713	124 465
KwaZulu-Natal	115 948	3 775	119 722
Limpopo	65 349	2 010	67 359
Mpumalanga	46 674	1 377	48 051
Northern Cape	15 150	422	15 573
North West	40 096	1 193	41 289
Western Cape	58 886	1 707	60 593
Total	567 528	17 558	585 086

Reprioritisation and Rollovers

Reprioritisation

- R57 million is reprioritised from the *school infrastructure backlogs grant* to the vote of the national Department of Basic Education. Of this amount R32 million will fund compensation of employees pressures; and R25 million will fund information and communication technology upgrades in the national Department of Basic Education

Rollover

- R137 million is rolled over in the *school infrastructure backlogs grant*. Of this amount, R93 million is for the completion of projects of the Sanitation Appropriate for Education initiative for schools; R26 million is for the completion of projects of the Accelerated Schools Infrastructure Delivery Initiative; and R18 million is for associated management costs. The funds are for schools in Eastern Cape, KwaZulu-Natal and Limpopo

Reductions

R thousands	2023/24
Direct Transfers	-6 226 195
Agriculture	-167 229
Comprehensive Agricultural Support Programme Grant	-124 859
Ilima/Letsema Projects Grant	-35 500
LandCare Programme Grant	-6 870
Basic Education	-1 730 558
Early Childhood Development Grant	-58 053
Education Infrastructure Grant	-1 594 911
HIV and AIDS (Life Skills Education) Grant	-27 790
Maths Science Technology Grant	-49 804
Health	-1 440 000
District Health Programmes Grant	-1 000 000
Health Facility Revitalisation Grant	-440 000
Human Settlements	-2 165 681
Human Settlements Development Grant	-1 688 968
Informal Settlements Upgrading Partnership Grant	-476 713
Public Works	-61 727
Expanded Public Works Programme Integrated Grant for Provinces	-31 160
Social Sector Expanded Public Works Programme Incentive Grant for Provinces	-30 567
Sports, Arts and Culture	-111 000
Community Library Services Grant	-68 000
Mass Participation and Sport Development Grant	-43 000
Transport	-550 000
Provincial Roads Maintenance Grant	-550 000
Indirect transfers	-316 539
Basic Education	-316 539
School Infrastructure Backlogs Grant	-316 539
Total	-6 542 734

- Only conditional grants were reduced in-year
- PES was spared from in-year reductions
- The *school infrastructure backlogs grant* reduction includes the reprioritisation of R57 million. Of the R260 million reduced, R175 million forms part of the budget consolidation as a reduction for this grant and R85 million is reduced to lower a reduction on the *early childhood development grant*
- The *national school nutrition programme grant* has been protected and a larger reduction is made to *education infrastructure grant*

Changes to local government allocations in 2023/24



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Adjustments to 2023/24 local government allocations (1 of 3)

Declared under-expenditure

- R1.4 billion unallocated expenditure and reverts

Reprioritisation and Rollovers

Reprioritisation

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Rollover

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available share is declared as under-
fund

Additions

- R1.2 billion is added to *Municipal Disaster Recovery Grant* to fund the repair of infrastructure damaged by the floods that occurred between February and March 2023
- R372 million is added to the *Municipal Disaster Response Grant* to replenish the depleted grant baseline

Conversions

- R10 million from uThukela Local Municipality's *municipal infrastructure grant* (MIG) allocation is converted to an indirect allocation for the Ekuvukeni Water Supply Project
- R20 million from Emfuleni Local Municipality's MIG allocation is converted to an indirect allocation to address the outfall of sewer in Evaton and Sebokeng
- R88 million from direct component of the *neighbourhood development partnership grant* is shifted to the indirect component to expedite project implementation in municipalities that are experiencing administrative and financial challenges

Adjustments to 2023/24 local government allocations (2 of 3)

Reprioritisations

- R53 million is reprioritised from the *integrated national electrification programme (Eskom) grant* to the vote of the national Department of Mineral Resources and Energy to fund the rehabilitation of derelict and ownerless mines
- R309 million is reprioritised from the indirect component of the *regional bulk infrastructure grant* to the indirect component of the *water services infrastructure grant* to enable the Department of Water and Sanitation to manage contractual obligations, budget pressures, accruals and payables for projects in several municipalities

Adjustments to 2023/24 local government allocations (3 of 3)

Fiscal consolidation reductions

	2023/24 Adjustment R'000
Direct conditional grants	(3 433 017)
<i>Infrastructure</i>	(3 333 964)
Municipal infrastructure	(1 173 464)
Informal settlements upgrading partnership	(305 602)
Urban settlements development	(553 138)
Integrated national electrification programme	(180 000)
Neighbourhood development partnership	(40 370)
Public transport network	(600 000)
Regional bulk infrastructure	(236 914)
Water services infrastructure	(244 476)
<i>Current</i>	(99 053)
Infrastructure skills development	(8 505)
Programme and project preparation support	(58 138)
Expanded public works programme integrated	(32 410)
Indirect conditional grants	(250 000)
<i>Infrastructure</i>	(250 000)
Integrated national electrification programme	(250 000)

- No reduction to the *local government equitable share*
- Direct conditional grants are reduced by R3.4 billion
- The *integrated national electrification programme (Eskom) grant* is reduced by R250 million

Changes to gazetted frameworks and allocations



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Changes to gazetted frameworks & allocations (1 of 2)

- Section 15(4) of the Division of Revenue Act, 2023, requires National Treasury to consult Parliament on any proposed changes to a conditional grant framework for the purposes of correcting an error or omission

Grant framework change

- Parliament is requested to consider and approve inclusion of the condition below in the framework of the *municipal disaster recovery grant* :

“R1.2 billion in 2023/24 is ring-fenced for the reconstruction and rehabilitation of municipal infrastructure damaged by the floods that occurred between February and March 2023. This funding may only be utilised for approved projects as listed in the post disaster verification assessment reports and business plans approved by the NDMC”

Changes to allocations

- ***Expanded public works programme integrated grant for provinces:*** Allocations of R3 million and R4 million that were previously allocated to the former Western Cape departments of Human Settlements, and Transport and Public Works respectively have been combined to a single allocation for the new provincial Department of Public Works and Infrastructure
- ***Indirect regional bulk infrastructure grant:*** An amount of R20 million for the Kirkwood Water project that was erroneously allocated to Dr Beyers Naude Local Municipality is corrected to an allocation to Sundays River Valley Local Municipality

Changes to gazetted frameworks & allocations (2 of 2)

- Once the Bill is enacted, the National Treasury will gazette:
 - The amended framework as shown in Annexure B of the Bill
 - The amended allocations per municipality as outlined in Annexures C to E; and Appendices A to D of the Bill
 - The changes per province for allocations for the *early childhood development grant, district health programmes grant; expanded public works programme integrated grant for provinces, social sector expanded public works programme incentive grant; and school infrastructure backlogs grant* as shown in Appendices E to I of the Bill

2024 Division of Revenue in the MTBPS



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2024 Division of Revenue in the MTBPS

- Government proposes allocating 48 per cent of available non-interest spending to national departments, 42.1 per cent to provinces and 9.9 per cent to local government
- In 2024/25 and 2025/26:
 - the *provincial equitable share* will receive a net addition of R4.1 billion, mainly for compensation
 - direct conditional grants for provinces will be reduced by R6.6 billion
 - the *local government equitable share* will be reduced by R5.9 billion
 - the *general fuel levy sharing with municipalities* will be reduced by R3.3 billion
 - direct conditional grants for municipalities will be reduced by R2.1 billion
- The implication of these changes will be set out in more detail in the 2024 Budget Review

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Division of available funds							
National departments	790.5	822.8	855.9	826.3	840.9	846.4	884.2
<i>of which:</i>							
<i>Provincial indirect grants</i>	2.9	3.8	3.9	4.0	4.0	4.3	4.4
<i>Local indirect grants</i>	4.1	5.7	7.2	8.6	8.0	8.3	8.7
Provinces	628.8	660.8	694.1	706.4	720.5	752.4	784.6
Equitable share	520.7	544.8	570.9	585.1	589.5	616.4	644.3
Conditional grants	108.1	116.0	123.3	121.3	131.0	136.1	140.3
Local government	137.1	135.6	150.7	160.6	169.2	177.3	182.9
Equitable share	83.1	76.2	83.9	95.2	101.2	106.1	110.7
General fuel levy sharing with metropolitan municipalities	14.0	14.6	15.3	15.4	14.5	15.2	15.9
Conditional grants	40.0	44.8	51.4	50.0	53.5	56.0	56.4
Provisional allocations not assigned to votes ¹	–	–	–	–	2.3	38.0	47.1
Projected underspending	–	–	–	-3.3	–	–	–
Non-interest allocations	1 556.4	1 619.2	1 700.7	1 690.1	1 732.8	1 814.1	1 898.8
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
Contingency reserve	–	–	–	0.4	5.0	7.6	14.5
Main budget expenditure	1 789.0	1 887.3	2 009.2	2 044.9	2 123.7	2 247.2	2 369.2
<i>Percentage shares</i>							
National departments	50.8%	50.8%	50.3%	48.8%	48.6%	47.7%	47.8%
Provinces	40.4%	40.8%	40.8%	41.7%	41.6%	42.4%	42.4%
Local government	8.8%	8.4%	8.9%	9.5%	9.8%	10.0%	9.9%

1. Includes amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations

Source: National Treasury

Changes to the structure of provincial and local government grants

- No major changes are proposed to provincial and municipal conditional grants for the 2024 MTEF period as the review of the conditional grants system is on-going

Provincial grants

- For the *national health insurance indirect grant* to improve the management of the grant, the Personal Service Component and Non-personal Service Component are being merged. The name of the new component is Health Systems component
- Oncology is mainly funded from *provincial equitable share (PES)* and *national tertiary services grant (NTSG)*. To consolidate funding for oncology, funds for oncology within the NHI direct grant are shifted to the NTSG. These funds will be added to the developmental portion within the NTSG

Local government grants

- Parallel to the review of the conditional grants system, changes will be considered for the *urban settlements development grant*; *integrated urban development grant*; and the *municipal infrastructure grant* to make better use of regulatory frameworks (i.e., Green Drop, Blue Drop and No Drop assessments)

THANK YOU